

Message Text

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ORIGIN ARA-14

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FM SECSTATE WASHDC
TO AMEMBASSY LIMA IMMEDIATE

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E.O. 11652: N/A

TAGS: EFIN, PE

SUBJECT: GOP MISSION TO CONFER WITH NEW YORK BANKS
T
REF: 184804

1. ON RETURN FROM SPECIAL TRIP TO LIMA WITH CITIBANK
SENIOR VICE PRESIDENT IRVING FRIEDMAN (REFTEL), VICE PRESI-
DENT PARRA INFORMED PERU DESK THAT GOP MISSION COMING TO
NEW YORK AUGUST 19 FOR DISCUSSION WITH BANKING SYNDICATE.
TEAM WILL BE HEADED BY CENTRAL BANK PRESIDENT DE LA MELENA
AND WILL INCLUDE DEPUTY FINANCE MINISTER ALCANTARA,
BROUSSET OF BANCO POPULAR, AND BARRETTA OF BANCO DE LA
NACION. DISPATCH OF MISSION TO NEW YORK WAS SUGGESTION
MADE BY FRIEDMAN IN LIMA. ACCORDING TO PARRA, FRIEDMAN
PHONED FINANCE MINISTER SAENZ TO EXPRESS GRATIFICATION THAT
MISSION WAS COMING.
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2. PARRA INDICATED THAT IN DISCUSSIONS IN LIMA, FRIEDMAN
EMPHASIZED URGENT NEED FOR PERU TO "FLESH OUT" MODIFIED
AUSTERITY REGIME. IN FRIEDMAN'S OPINION, GOP HAD GOTTEN
ABOUT 80 PERCENT OF THE PACKAGE TOGETHER. COMPLETION OF
PACKAGE WAS NECESSARY IN ORDER TO STOP CRITICAL EROSION OF
CONFIDENCE ON PART OF BANKS IN VIABILITY OF PERUVIAN

ECONOMY. HEMORRHAGING OF RESERVES MOST SERIOUS, AND WITHOUT IMMEDIATE SHORT-TERM ASSISTANCE FROM BANKS AND IMF, PERU WILL BE UNABLE TO AVOID DEFAULT.

3. FRIEDMAN REPORTEDLY EMPHASIZED NECESSITY FOR PERU TO CUT BACK ON PUBLIC-SECTOR SPENDING, TO RESTRICT DOMESTIC CREDIT AND TO RETURN TO SYSTEM OF MINI-DEVALUATIONS. PARRA ACKNOWLEDGED THAT PERUVIANS SHOWED LITTLE DISPOSITION TO DIVERT FROM PRESENT COURSE IN THESE AREAS.

4. IN RESPONSE TO QUESTION, PARRA SAID THAT FRIEDMAN HAD MEETING WITH PRESIDENT MORALES BERMUDEZ ON AUGUST 12, LASTING ONE AND ONE-HALF HOURS. FRIEDMAN WAS STRUCK BY PRESIDENT'S GENUINE FEELING FOR NEEDY MASS OF PERUVIAN POPULATION AND EMPHASIS ON IMPORTANCE OF "SOCIAL ASPECT" OF ANY AUSTERITY REGIME. MORALES BERMUDEZ ARGUED FORCEFULLY AGAINST FRIEDMAN'S PROPOSALS ON PHASING OUT SUBSIDIES AND RETURNING TO MINI-DEVALUATION SYSTEM. PRESIDENT CHARACTERIZED AS MOST DEEPLY COMMITTED ADVOCATE OF LIMITED REFLATIONARY POLICY AMONG ALL THOSE WHOM CITIBANK REPS MET.

5. PARRA ALSO ADVISED THAT CITIBANK WILL CONFER WITH OTHER LEAD MEMBERS OF US BANKING SYNDICATE AUGUST 17 PRIOR TO ARRIVAL OF GOP MISSION. FRIEDMAN UNABLE TO COME TO WASHINGTON TO BRIEF USG OFFICIALS HERE. DEPARTMENT WILL REPORT FURTHER INFORMATION AS DEVELOPED.
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6. PARRA INDICATED THAT GOP STILL PLANS TO RESUME NEGOTIATION WITH IMF FOR STANDBY AND WILL BE SENDING A TEAM TO WASHINGTON THE FIRST WEEK OF SEPTEMBER. VANCE

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